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# The Society Most Conducive to Problem Solving

## *Karl Popper and Piecemeal Social Engineering*

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A passage written by Bryan Magee inspired the title and theme of the paper:

Because [Karl Popper] regards living as first and foremost a process of problem-solving he wants societies which are conducive to problem-solving. And because problem-solving calls for the bold propounding of trial solutions which are then subjected to criticism and error-elimination, he wants societies which permit the untrammelled assertion of differing proposals, followed by criticism, followed by the genuine possibility of change in the light of criticism. Regardless of any moral consideration, he believes that a society organized on such lines will be more effective at solving its problems, and therefore more successful at achieving the aims of its members, than if it were organized on other lines. (1985, 75–76)

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This passage clearly embodies Karl Popper's ideas of scientific discovery and problem solving through conjecture and refutation. In his major work on social theory, *The Open Society and Its Enemies* (1963a, 1963b), Popper (1902–94) presented his idea of an open society and outlined a method of social reform he called “piecemeal social engineering” (1963a, 158). Although he was inclined to intervention, he included market processes in his model: “Even a man who opens a new shop, or who reserves a ticket for the theatre, is carrying out a kind of social experiment on a small scale; and all our knowledge of social conditions is based on experience gained by making experiments of this kind” (1963a, 162). It is unfortunate that rather than focusing on this latter component of piecemeal social engineering and encouraging Popper to expand upon it, Friedrich A. Hayek (1899–1992) focused his energy on criticizing its more interventionist thrust (Notturmo 2015, 1821).<sup>1</sup> This critique has led to a general failure to recognize the relevance of Popper's philosophical views by economists and philosophers who are wary of intervention. It is this failure that I wish to remedy here by criticizing Popper's interventionism in the light of his work on the evolution of knowledge and exploring the implications of that work that are supportive of markets.

I contend that the market has a tremendous advantage over interventionism as a venue for piecemeal social engineering, and it will be to Popper's lasting credit that he allowed for a great deal of market freedom in his social theory. However, there is no argument here that Popper would have agreed to the shift of emphasis and supported it. Jeremy Shearmur, a former assistant to Popper who often reasoned to more market-friendly conclusions from Popper's ideas, mused that he could have been seen by Popper as betraying him for making arguments “that Popper's work has consequences in the political realm which are suggestive of views which are different from those which Popper himself espoused, especially as a young man” (1996b, 1). To make the case for markets, I first discuss Popper's significance and the political thought that fueled his interventionism and provide a brief introduction to economic ideas that are fundamental to the argument. I then examine interventionism and markets considering the two criteria that Magee puts forward:

1. Does the approach permit “the untrammelled assertion of differing proposals”?
2. Does the approach facilitate “criticism, followed by the genuine possibility of change in the light of criticism”?

The two criteria are discussed in the sections addressing interventionism and markets.

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1. Perhaps this oversight can be explained by Hayek's own limited acceptance of intervention that resulted in some criticism of his book *The Constitution of Liberty* (1960) by his former mentor and colleague Ludwig von Mises (2008, 114).

## Preliminaries

### *Karl Popper's Significance*

Karl Popper was possibly the most significant philosopher of science of the twentieth century (Thornton 2016). Coming of age in Red Vienna, dabbling in Marxism, and associating with many Marxists and socialists, Popper tried his hand at cabinetmaking, music, teaching, science, and eventually epistemology (Hacohen 2000). Then, with the aid of the Vienna Circle (Wiener Kreis), he finally burst forth upon the world stage with his revolutionary book *Logik der Forschung* (1935), later revised and translated as *The Logic of Scientific Discovery* (1959). The Vienna Circle was the intellectual home of logical positivism and the center of the universe in terms of the philosophy of science. Ironically, Popper issued his book as a criticism of logical positivism but has fallen victim to confusion regarding his association with the same and the “legend” that he was a logical positivist (Hacohen 2000, 211).

In short order, Gottfried Haberler recommended the book to fellow Austrian and economist Friedrich Hayek (Popper 1985, 108 n. 163), but when Popper called upon Hayek in “September or October of 1935” (Popper [1992] 2008a, 408), Hayek had not yet read it. Popper gave him a copy, and Hayek read it “with great care” within a week (Popper [1992] 2008a, 408–9). Soon after, Popper presented a paper to Hayek’s seminar at the London School of Economics (Popper 1985, 108). The paper, entitled “The Poverty of Historicism,” was later revised and expanded and published in three articles in *Economica* in 1944–45 and finally as a book in 1957 (Hacohen 2000, 353).

As the feared German occupation of Austria approached, Popper began a search for a position outside the reach of Nazi Germany. His ancestry was Jewish, and his parents’ conversion to Lutheranism would have been of no account to the Nazis. Hayek was involved in the initial stages of the search that led Popper to New Zealand, but it was others who carried the greater part of the burden and deserve recognition for its success (Hacohen 2000, 318–24). While Popper was in New Zealand, he wrote *The Open Society and Its Enemies* as part of what he called his “war effort” (Popper 1985, 115).

As Hayek continued to help Popper, the two became close friends, and Hayek said of Popper: “To a very large extent I have agreed with him, although not always immediately. Popper has had his own interesting developments, but on the whole I agree with him more than with anybody else on philosophical matters” (Hayek 1994, 51).

Popper’s lifetime drift toward classical liberalism made him Hayek’s ally, although one that was considerably more interventionist. Hayek invited Popper to join him at the first meeting of what came to be known as the Mont Pelerin Society. Popper, hoping to create an alliance between liberals and socialists concerned with freedom, recommended that some of these democratic socialists be invited to join the meeting—advice that Hayek failed to follow (Shearmur 1996b, 30).

Popper’s intellectual exchanges with Hayek, one of the twentieth century’s leading liberals, make it incumbent on modern liberals and libertarians to engage with his social

thought. However, it is his work in epistemology and philosophy of science that can be applied to develop new arguments that strengthen the liberal/libertarian project.

### *Popper's Political Thought*

As a young man, Karl Popper embraced socialism under the tutelage of his lifelong friend Arthur Arndt (Popper 1985, 12). Popper's attraction to socialism was due to his belief that "nothing . . . could be more important than to end poverty" (Popper 1985, 12) and that socialism was the program by which that end could be achieved. He read Edward Bellamy's utopian novel *Looking Backward* (1887) at the impressionable age of twelve, so it is no wonder that he never lost his fondness for the world it portrayed (Popper 1985, 13, 36). In the waning years of World War I, in which students became increasingly politicized, he joined a Marxist youth group (Hacohen 2000, 77).<sup>2</sup> After a shocking experience in 1919 during an attempted Communist coup in Vienna, Popper lost confidence in communism and eventually rejected Marxism (Hacohen 2000, 82–85). However, even after rejecting Marxism, he remained a socialist (Popper 1985, 36), and socialists made up his core friendships into the mid-1920s (Hacohen 2000, 79).

Around 1922, Popper became skeptical of bureaucracy and began his drift toward liberalism (Shearmur 1996b, 21). By June 4, 1944, soon after he had submitted his manuscript for *The Open Society and Its Enemies*, he had read Hayek's *The Road to Serfdom* (Shearmur 1996b, 27 n. 43). Struck by the similarities of its conclusions to his own, he asked Ernst Gombrich, who had undertaken to find a publisher for *The Open Society*, to insert a note that made clear that he had not read Hayek's work prior to writing his book (Shearmur 1996b, 27). In a later letter to Rudolf Carnap, he wrote that he had not read *The Road to Serfdom* prior to writing *The Open Society* but had since read it and "learned a great deal from it" (Popper [1940–50] 2008b, 100). In the preface to the second edition of *The Open Society*, Popper wrote, "I see now more clearly than ever before that even our greatest troubles spring from something that is as admirable and sound as it is dangerous—from our impatience to better the lot of our fellows" (1963a, ix), echoing Hayek's similar sentiments in *The Road to Serfdom*: "Because of the growing impatience with the slow advance of liberal policy, the just irritation with those who used liberal phraseology in defense of anti-social privileges, and the boundless ambition seemingly justified by the material improvements already achieved, it came to pass that toward the turn of the century the belief in the basic tenets of liberalism was more and more relinquished" (Hayek 2007, 72).

In *The Open Society*, Popper strongly criticized "unrestrained capitalism" (1963b, 122),<sup>3</sup> accepting Marx's view that it is unjust and inhumane (1963b, 124).<sup>4</sup> However,

2. Hayek, Popper's future friend and colleague, might have followed a similar path if it had not been for Ludwig von Mises's book *Socialism* ([1936]1974); see Hayek 1992.

3. *Unrestrained capitalism* is construed to be a synonym for *free market*, the "pure or unhampered market economy" (Mises 1966, 237–39) or simply "the market." Interventionism, state capitalism, corporatism, and crony capitalism are specifically excluded.

4. Shearmur (1996b) has offered an extensive criticism of Popper's views of "unrestrained capitalism."

he also accepted that the absence of trade barriers was “something highly desirable” and that there was “tremendous benefit to be derived from the mechanism of free markets” (1963b, 327, 124).

Popper suggested piecemeal social engineering as an antidote for collectivist utopianism,<sup>5</sup> and it was effective for that purpose:

Before proceeding to criticize Utopian engineering in detail, I wish to outline another approach to social engineering, namely, that of piecemeal engineering. It is an approach which I think to be methodologically sound. The politician who adopts this method may or may not have a blueprint of society before his mind, he may or may not hope that mankind will one day realize an ideal state, and achieve happiness and perfection on earth. But he will be aware that perfection, if at all attainable, is far distant, and that every generation of men, and therefore also the living, have a claim; perhaps not so much a claim to be made happy, for there are no institutional means of making a man happy, but a claim not to be made unhappy, where it can be avoided. They have a claim to be given all possible help, if they suffer. The piecemeal engineer will, accordingly, adopt the method of searching for, and fighting against, the greatest and most urgent evils of society, rather than searching for, and fighting for, its greatest ultimate good. (1963a, 158)

However, his political emphasis left few options for feedback to evaluate the effectiveness of the engineers’ plans. Popper realized the dangers posed by state power but issued only warnings about it rather than a specific plan for its limitation: “I wish to add here that economic intervention, even the piecemeal methods advocated here, will tend to increase the power of the state. Interventionism is therefore extremely dangerous. This is not a decisive argument against it; state power must always remain a dangerous though necessary evil. But it should be a warning that if we relax our watchfulness, and if we do not strengthen our democratic institutions while giving more power to the state by interventionist ‘planning,’ then we may lose our freedom” (1963b, 130). Popper considered democracy to be the political system where “it is possible to get rid of the government without bloodshed,” making it so that “it does not matter who rules” ([1987] 1999c, 94). This is all well and good, but as Jeremy Shearmur writes in discussing Popper’s ideas about democracy and its related institutions, “I do not know what real-world institutions could even approximate to by playing the kind of role that he would be asking of them” (1996b, 122).

Reading Hayek’s methodological essays and *The Road to Serfdom* in 1943–44, Popper changed from being a “non-Marxist socialist” to a “welfare liberal, sensitive to libertarian concerns” (Hacohen 2000, 450). This sensitivity was later demonstrated in his efforts to reconcile socialists who valued freedom with liberals (Popper [1946?]

5. A note makes it clear that Marxism, too, along with Nazism, also displayed utopian thinking (Popper 1963a, 158 n. 1).

2008c). However, he never abandoned the idea of intervention, outlining a complicated scheme of seminationization for Britain in a letter to Bryan Magee written in 1974 but never sent (Shearmur 1996b, 36).

### *Popper's Philosophy of Fallible, Evolutionary, and Objective Knowledge*

Karl Popper was quite prolific and wrote extensively about knowledge over his long career, beginning in 1935 with the previously mentioned *Logik der Forschung*. The themes he pursued over the years included falsifiability as the criterion of demarcation in science, the rejection of induction and justified belief, and knowledge acquired through the evolutionary process of trial and error with selection by testing and intersubjective criticism.

Popper argued that all knowledge is conjectural and, if it has empirical content, open to falsification—“*All theories are hypotheses; all may be overthrown*” (1972a, 29, emphasis in original). Falsification can provide certain logical evidence that we are wrong, but we can never be certain that we are right.

I was very far from suggesting that we give up the search for truth: our critical discussions of theories are dominated by the idea of finding a true (and powerful) explanatory theory; and *we do justify our preferences by an appeal to the idea of truth*: truth plays the role of a regulative idea. *We test for truth*, by eliminating falsehood. That we cannot give a justification—or sufficient reasons—for our guesses does not mean that we may not have guessed the truth; some of our hypotheses may well be true. (1972a, 29–30, emphasis in original)

Popper called this approach “critical rationalism.”

Popper also believed “that observation is always *observation in the light of theories*” (1959, 59 n. 1, emphasis in the original). Ludwig von Mises displayed a similar view when he wrote that “[complex] phenomena . . . become intelligible only through an interpretation in terms of theories previously developed from other sources” (1966, 31).

Although Mises and Popper thought of each other as epistemological adversaries (Popper [1982] 2008a, 404), Mises expressed a point of view quite like Popper’s:

Man is not infallible. He searches for truth—that is, for the most adequate comprehension of reality as far as the structure of his mind and reason makes it accessible to him. Man can never become omniscient. He can never be absolutely certain that his inquiries were not misled and that what he considers as certain truth is not error. All that man can do is to submit all his theories again and again to the most critical reexamination. This means for the economist to trace back all theorems to their unquestionable and certain ultimate basis, the category of human action, and to test by the most careful

scrutiny all assumptions and inferences leading from this basis to the theorem under examination. It cannot be contended that this procedure is a guarantee against error. But it is undoubtedly the most effective method of avoiding error. (1966, 68)

In the physical sciences, the criticism of theories that have cleared the more basic hurdles of logical consistency, explanatory power, and so on comes from experimentation, whereas economics precludes that approach due to the impossibility of reproducing the conditions of societal experiments. This difficulty has led Rafe Champion (2002) to suggest that Austrian economics can be viewed as a Popperian metaphysical research program. Austrians may bristle at this suggestion because Popper is frequently confused with logical positivists (Rothbard 2011, 161 n. 1), who labeled metaphysics as “nonsense.” Popper, however, is quite clear that metaphysics has an important role to play in science: “In using this term [*metaphysical research program*] I wish to draw attention to the fact that in almost every phase of the development of science we are under the sway of the metaphysical—that is, untestable—ideas; ideas which not only determine what problems of explanation we shall choose to attack, but also what kinds of answers we shall consider as fitting or satisfactory or acceptable, and as improvements of, or advances on, earlier answers” (1982, 161). This explanation quite clearly states that metaphysical research programs are useful in approaching real-world problems. Discussing physics two paragraphs later, Popper writes, “I call these research programmes ‘metaphysical’ also because they result from general views of the structure of the world and, at the same time, from general views of the problem situation in physical cosmology” (161). When we think about the application of this statement to the field of economics, we see that Mises’s action axiom is indeed a general view of the structure of the world—one that, in fact, Popper shared.<sup>6</sup>

Popper’s evolutionary approach to knowledge appeared early, albeit quietly, when he wrote in *The Logic of Scientific Discovery*, “We choose the theory which best holds its own in competition with other theories, the one which, by natural selection proves itself the fittest to survive” (1959, 108). As mentioned earlier, the themes in the book must have spoken to Hayek because soon after reading it, he was referencing it.<sup>7</sup> Bruce Caldwell describes what he thinks was the intellectual attraction between the two men:

I think that in the first instance each was fascinated by the fact that someone else, someone coming from a very different disciplinary background, had come up with an argument that complemented his own. Imagine Hayek’s reaction, for example, when he first read the opening chapters of *Logik der*

6. Popper’s assertion that “all life is problem solving” may be viewed as a generalization of Mises’s axiom of action. See Gladish 2013 for an elaboration.

7. See Hayek [1948] 2002, 33 n. 1.

*Forschung* in 1935 or so. Hayek would have immediately been taken with those chapters. He was, after all, part of the Austrian tradition in economics, a tradition that had fought in the Methodenstreit against the German historical school economists[,] at least some of whom had argued that the careful collection of facts would someday, by means of induction, lead to the creation of a theory. (2006, 121)

Popper's theory of knowledge became closely linked with Darwinism in that he eventually suggested that all knowledge is acquired through trial and error, with no difference between organisms, "from the amoeba to Einstein" (Popper 1972c, 261).<sup>8</sup>

This biological evolution equipped organisms with a priori knowledge reflecting their expectations of the environment (Niemann 2014, 55). Although Popper was, in his own words, "a radical apriorist," his apriorism was "hypothetical or conjectural" ([1986] 1999a, 46–47). Barry Smith (1996) has elaborated on this theme in the context of Austrian economics in his essay on fallible apriorism and the synthetic a priori. Rafe Champion (2011), following Smith, has argued further for a synthesis of Misesian and Popperian epistemology.

Popper expressed the iterative and evolutionary nature of knowledge creation in a four-step schema:

$$P_1 \rightarrow TT \rightarrow EE \rightarrow P_2,$$

where  $P_1$  is the initial problem state,  $TT$  is a tentative solution or theory,  $EE$  is the error-elimination process applied to the theory, and  $P_2$  represents the new problem state generated by the process (1972b, 121).

Even if economics is considered to be metaphysical, it is subject to the same trial-and-error methodology that Popper proposed. An example would be the numerous inadequate theories of value put forward prior to the introduction of marginal utility by William Stanley Jevons, Carl Menger, and Leon Walras, acting independently (Landreth and Colander 1994, 218).

In discussing objective knowledge, Popper proposed a structure that divided the universe into three worlds. Rafe Champion summarizes these worlds as follows: "it is possible to distinguish (1) a world of solid objects (2) a world of mental states and (3) 'a world of objective contents of thought, especially of scientific and poetic thoughts and of works of art'" (2016, 190). To comprehend Popper's world three, one must understand that it contains all objectified thought, including that which is commonly believed to be false or is controversial. Therefore, astrology, the phlogiston theory of combustion, and virtually all of economics qualify for placement in this category. What matters is that these ideas have been externalized and are open to intersubjective criticism, the requirement for objective knowledge.

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8. Popper did see a difference in the human ability to eliminate errors through criticism.



### *Action, Prices, and Profit and Loss*

Ludwig von Mises explained the relationship between action, prices, and costs as he applied them to humans:<sup>9</sup>

Action is an attempt to substitute a more satisfactory state of affairs for a less satisfactory one. We call such a willfully induced alteration an exchange. A less desirable condition is bartered for a more desirable. What gratifies less is abandoned in order to attain something that pleases more. That which is abandoned is called the price paid for the attainment of the end sought. The value of the price paid is called costs. Costs are equal to the value attached to the satisfaction which one must forego in order to attain the end aimed at. (1966, 97)

Although Mises excluded nonhumans as well as children and some impaired humans from his analysis (1966, 14), all living things engage in this act of choosing a tentative solution, even if they do so only at the chemical level.<sup>10</sup> Popper recognized this fundamental feature connecting all of life when he wrote, “The theory of knowledge which I wish to propose is a largely Darwinian theory of the growth of knowledge. From the amoeba to Einstein, the growth of knowledge is always the same: we try to solve our problems, and to obtain, by a process of elimination, something approaching adequacy in our tentative solutions” (1972c, 261).

Human beings, as far as we know, are the only living things that have devised a way to express prices objectively as world-three objects in Popper’s terms (Popper 1972d, 157). As such, a monetary price is a theory—a theory that someone will value the price in money less than the goal it attains—that may or may not survive the test. Prices are the foundation of market criticism.

Although Popper identified Mises as a subjectivist ([1992] 2008a, 404), it is clear that Mises viewed prices as objective when he wrote, “In an exchange economy, the objective exchange value of commodities becomes the unit of calculation” ([1936] 1974, 115).

For a discussion of profit, we turn again to Mises: “The difference between the value of the price paid (the costs incurred) and that of the goal attained is called gain or profit or net yield. Profit in this primary sense is purely subjective, it is an increase in the acting man’s happiness, it is a psychical phenomenon that can be neither measured nor weighed. There is a more and a less in the removal of uneasiness felt; but how much one satisfaction surpasses another one can only be felt; it cannot be established and determined in an objective way” (1966, 97). Mises goes on to discuss loss: “It happens

9. See the suggestion in Gladish 2013 that Mises’s concepts extend to nonhuman actors through Popper’s idea that “all life is problem solving.”

10. See the description of the behavior of the microorganism *E. coli* in Cziko 1995, 120.

again and again that an action does not attain the end sought. Sometimes the result, although inferior to the end aimed at, is still an improvement when compared with the previous state of affairs; then there is still a profit, although a smaller one than that expected. But it can happen that the action produces a state of affairs less desirable than the previous state it was intended to alter. Then the difference between the valuation of the result and the costs incurred is called a loss” (1966, 97–98). As Mises discusses them, profit and loss are world-two objects and expressions of human values. If in the actor’s mind the product of action is a state that is more desirable than the original state, there is a profit. If on the contrary the state is less desirable, there is a loss. Money simply creates a world-three object that facilitates calculation and lets us determine if the factors of production could be more suitably employed. As Mises puts it,

The subjective valuation of one individual is not directly comparable with the subjective valuation of others. It only becomes so as an exchange value arising from the interplay of the subjective valuations of all who take part in buying and selling. . . . [C]alculations of this sort provide a control upon the appropriate use of the means of production. They enable those who desire to calculate the cost of complicated processes of production to see at once whether they are working as economically as others. If, under prevailing market prices, they cannot carry through the process at a profit, it is a clear proof that others are better able to turn to good account the instrumental goods in question. ([1936] 1974, 115)

This account of the source of “exchange value” is unmistakably similar to Popper’s expression of scientific objectivity “as the inter-subjectivity of scientific method” (1963b, 217).

It seems clear that the universe has its own way of criticizing processes that consume more than they produce. Any life form that consistently consumes more energy and resources than it acquires in the process will expire, individually or wholly. In fact, we might say that the problem all life is trying to solve is that of generating a profit (Popper 1963b, 217).

## Interventionism

For my purposes here, I adopt Mises’s view of interventionism as “a system of private ownership of the means of production in which the government intervenes, by orders and prohibitions, in the exercise of ownership” ([1998] 2011, 1).<sup>11</sup> Popper supported interventionism and wrote that “if we wish freedom to be safeguarded, then we must

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11. Note that this view of interventionism does not preclude private, at-risk intervention. People committed to the improvement of their fellows may still allocate their time and resources to that end and judge the efficacy of their actions.

demand that the policy of unlimited economic freedom be replaced by the planned economic intervention of the state” (1963b, 125). The discussion here covers the effect of intervention, first on proposals and then on the criticisms of proposals.

### *Proposals*

As mentioned previously, Popper included both public and private efforts under the heading of piecemeal social engineering. However, in so doing he failed to engage fully with the differences between the nature of these two fields and their institutional problems. Whereas “in economic exchange, decisions are made at the margin, in terms of more or less, . . . in politics decisions are made among mutually exclusive alternatives, in terms of all-or-none prospects” (Buchanan 1999, 56). Here I am concerned with only the public or political side of piecemeal social engineering.

Popper viewed the evolution of scientific theory as a pluralistic, trial-and-error process in which a problem is addressed by a number of attempted solutions, which are then subject to elimination ([1972] 1999b, 4). He saw the process as being Darwinian and argued that “science is a biological phenomenon” ([1972] 1999b, 5). But when he spoke of piecemeal social engineering in the context of political reform, the idea of pluralism seems to be absent: “They [blueprints for piecemeal social engineering] are blueprints for single institutions, for health and unemployed insurance, for instance, or arbitration courts, or anti-depression budgeting, or educational reform” (1963a, 159). It is true that multiple social engineers and the public may be involved in the process of producing a blueprint, but the result will likely be a single, compromise plan that is then imposed within the political jurisdiction in question. In addition, as Shearmur writes, “central to Popper’s vision of politics is the political imposition of a shared ethical agenda, through the process of trial and error: of piecemeal social engineering” (1996b, 29).

This double imposition is hardly pluralistic and could inhibit the development of ethical approaches that conflict with its ends and means. Whereas scientific theories may compete for acceptance and simply be discarded when better explanations are found, social engineering imposes a social experiment that inhibits and may even punish competitive development. To be clear, it is not Popper’s proposed method of choosing or revising the engineering plan that presents the greatest problem. It is rather the outcome—that the plan is imposed to the exclusion of other plans. One early reviewer of *The Open Society and Its Enemies* saw Popper’s social engineering as “the domination of society by a particular group” and suggested that “in proportion as men do participate in their own affairs, they will come in conflict with humanitarians and with the reasonableness of the social engineers” (Rhees 1947, 331). Although one may resign from a church or social club that takes disagreeable positions and then join or start another church or social club, one must move to a different political jurisdiction to enjoy policies more to one’s liking.

In search of a way to unite liberals and socialists on the scope of state power, Popper counseled that consensus might be reached on the separation of public and private values and on addressing “concrete suffering” through the “socialization of suffering” ([1946?] 2008c, 125). The apparent aim was to bring liberals to accept socialist means to achieve common ends that Popper identified as public. He wrote, “[T]he socialist wins in the field of negative values, or of public values,” whereas liberals are consigned to the “field of positive or private values . . . [namely] the protection of freedom, . . . the encouragement of free competition and . . . freedom of choice” ([1946?] 2008c, 126). Although Hayek supported the idea that the ends sought by socialists and liberals “were not so very different,” he was quick to point out that there was a difference “on the effective means of achieving them” (2004, 9). One can be sure that this difference applied to public as well as to private values.

Popper apparently saw institutions as monolithic wholes following a single blueprint rather than as networks of competing enterprises that have common ends but different, if conceptually similar, blueprints. It seems he did not expect piecemeal social engineering to generate proposals that would compete. Social engineers would design changes that they thought would improve an institution’s ability to achieve its ends, and those changes were to be implemented through the power of the state. In addition, his proposals to limit the state and to resolve the conflict between opposing factions seem authoritarian. This approach does not fit with the pluralistic, evolutionary process he advocated in science.

### *Criticism*

Popper argued that the question we should ask is not “Who should rule?” but “How can we so organize political institutions that bad or incompetent rulers can be prevented from doing too much damage?” (1963a, 121). Considering this question, we must wonder how we can limit the damage the piecemeal social engineers create under the authority of the rulers. Once the social engineer has imposed a blueprint on the populace, what method do we have of criticizing, revising, or even repealing it given Popper’s vague discussion of the criticism of an instance of piecemeal social engineering?

If they [the piecemeal social engineers’ blueprints] go wrong, the damage is not very great, and a re-adjustment not very difficult. They are less risky, and for this reason less controversial. But if it is easier to reach a reasonable agreement about existing evils and the means of combating them than it is about an ideal good and the means of its realization, then there is also more hope that by using the piecemeal method we may get over the very greatest practical difficulty of all reasonable political reform, namely, the use of reason, instead of passion and violence, in executing the programme. (1963b, 159)

How it is determined that the blueprints have gone wrong and what the nature of the readjustment should be is left to the imagination. It is possible that beneficiaries of the blueprints gone wrong may make a fuss about whether there is to be a readjustment. And, finally, even the ability to agree “on what constitutes success” (Winch 1974, 903) of a particular policy has been questioned.

Popper seemed content to counsel acceptance of bad policy “as long as we can work for a peaceful change” (1963a, 125). Failing that, he said, “[i]t is quite wrong to blame democracy for the political shortcomings of a democratic state. We should rather blame ourselves, that is to say, the citizens of the democratic state” (127). After asserting that “[s]tate intervention should be limited to what is really necessary for the protection of freedom” (1963b, 130), he almost admitted defeat:

But it is not enough to say that our solution should be a minimum solution; that we should be watchful; and that we should not give more power to the state than is necessary for the protection of freedom. These remarks may raise problems, but they do not show a way to a solution. It is even conceivable that there is no solution; that the acquisition of new economic powers by a state—whose powers, as compared to those of its citizens, are always dangerously great—will make it irresistible. So far, we have shown neither that freedom can be preserved nor how it can be preserved. (1963b, 130–31)

The remedy Popper proposed is the limitation of the state through institutions—the institutions that the piecemeal social engineers themselves modify under the authority of the rulers:

The important distinction which we made there [in chapter 7 of *The Open Society*, volume 2] was that between persons and institutions. We pointed out that, while the political question of the day may demand a personal solution, all long-term policy—and especially all democratic long-term policy—must be conceived in terms of impersonal institutions. And we pointed out that, more especially, the problem of controlling the rulers, and of checking their powers, was in the main an institutional problem—the problem, in short, of designing institutions for preventing even bad rulers from doing too much damage. (1963b, 131)

Popper asked us to be convinced that his complicated construction of piecemeal social engineering is somehow adequate to the task of defending freedom. Perhaps the more complicated we make the process of state encroachment on freedom, the more secure freedom will be? In this context, Shearmur expresses skepticism: “All told, while Popper’s ideas about democracy are attractive, and while he is raising important issues, I do not know what real-world institutions could even approximate to by playing the kind of role that he would be asking of them” (1996b, 122). Despite the dangers, Popper

accepted the necessity of intervention and the state, even though he equated power and violence (1963a, 161).

There is no intention here to enter a debate over specific policies; the purpose is to argue on the basis of Popper's theories rather than his or others' support for those policies, but everyone can think of examples of a democratic government's failure that illustrates its insensitivity to the damage it creates.

Although governments are a party to the free market, they can pay and charge prices that are independent of the market through their monopoly on the legitimate use of physical force (see Weber 1946, 77). This monopoly insulates them from the criticisms of profit and loss that market participants face on a daily basis and leaves them rudderless in embarking on or abandoning projects. The government may do things of value, but it is impossible to subject that value to economic calculation. Of course, individuals are free to believe that certain actions are "right," regardless of the negative impact on a society's overall prosperity.

## Markets

Mises calls "capitalism or market economy that form of social cooperation which is based on private ownership of the means of production" ([1998] 2011, 1). The market economy is constrained by the sovereignty of the consumers, who determine "by their buying and their abstention from buying" what is to be produced (1966, 270).

My position is more extreme than that of Mises, who believed that the police power must be wielded by a minimal state to preserve social order (1966, 720). All services that a government provides consistent with Mises's goals can be made available by institutions that are subject to the market forces of competition and of profit and loss. This approach is compatible with Popper's goals, as expressed by Magee.

## *Proposals*

Hayek saw competition as being analogous to the scientific process and capable of producing knowledge, which may have been the source of his original attraction to Popper's work: "The peculiarity of competition—which it has in common with scientific method—is that its performance cannot be tested in particular instances where it is significant, but is shown only by the fact that the market will prevail in comparison with any alternative arrangements. The advantages of accepted scientific procedures can never be proved scientifically, but only demonstrated by the common experience that, on the whole, they are better adapted to delivering the goods than alternative approaches." Hayek goes on to say: "The difference between economic competition and the successful procedures of science consists in the fact that the former is a method of

discovering specific, temporary purposes, while science aims at the discovery of what are sometimes called ‘general facts,’ which are regularities of events” (2014, 305).<sup>12</sup> Whatever the difference, the process is the same. Competition relies on some sort of critical component in order to retain—or, in evolutionary terms, to select—those elements that are suitable to survive. Criticism is here taken in an abstract sense that manifests itself in such varied ways as environmental stresses in nature as well as critical arguments in scientific literature. In fact, we can view all criticism as an environmental stress of one sort or another. In the case of markets, participants view the data of prices in a theory-laden manner (looking to achieve certain ends), produce theories of action that will produce those ends, and act, thereby critically testing the theory. Of course, the data may tell them that their ends are not attainable in the current environment and must be abandoned. This similarity between market processes and knowledge acquisition as Popper described it is clear, but how might it be applied at the institutional level?

Jeremy Shearmur suggests one way to foster new institutional approaches (1996b, 143).<sup>13</sup> It involves the creation of experimental communities within a minimal state, after proposals by Robert Nozick and Karl Menger.<sup>14</sup> Many such communities were founded in the nineteenth century when federal and state governments were much smaller. With regulation and taxes almost nonexistent, most of these communities were “tinged with ideas borrowed from one or other of the schools of socialism” (Gray 1946, 75)—a reaction to increasing industrialization. These experiments usually failed within a short time and did not present models for widespread adoption of their methods and ideals. In such an unregulated environment, although some individuals still found it constraining, it made little sense to start a free-market experiment. In the twentieth century, the establishment of the kibbutzim in Israel was also problematic, and many communities shifted away from equal sharing beginning in the 1990s (Abramitzky 2011, 195).

In recent decades, due to the difficulty of nullifying taxes and regulations within a country, there have been multiple initiatives to start nations<sup>15</sup> or to capture an existing political entity<sup>16</sup> in order to create free-market communities. These attempts have been unsuccessful, not because they were founded and then dissolved through abandonment by the participants and their children, but because they were never established in any meaningful sense of the word.

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12. One thing Hayek does not seem to consider here is the enduring nature of institutions. Money, banking, capital markets, arbitration courts, and so on are abstractions that are hardly temporary, although the particulars and the participants in providing these services are.

13. John Stuart Mill (1869) had also discussed the idea of “experiments of living.”

14. The mathematician son of the economist Carl Menger.

15. See Mike Oliver’s efforts, including the Minerva project (Doherty 2007, 401–4).

16. One such effort is the Free State Project in New Hampshire; a description is given at the project’s website at <http://freestateproject.org/>.

One political entity that is an example of experimental market freedom is Hong Kong. Although it was not created by refugees from the taxing, regulatory state, by some measures it is quite free economically (Heritage Foundation 2014) and very prosperous, while having access to few resources. Much of Hong Kong's prosperity has been credited to the policy of "positive non-intervention" followed by Sir John James Cowperthwaite, the financial secretary of Hong Kong from 1961 to 1971 (Reed 2014). Milton Friedman, in a tribute to Cowperthwaite in 1997, said: "Compare Britain—the birthplace of the Industrial Revolution, the nineteenth-century economic superpower on whose empire the sun never set—with Hong Kong, a spit of land, overcrowded, with no resources except for a great harbor. Yet within four decades the residents of this spit of overcrowded land had achieved a level of income one-third higher than that enjoyed by the residents of its former mother country" (qtd. in Reed 2014, 25). Other examples of experimental market freedom are special economic zones where tariffs and taxes are reduced or removed, and many of these zones continue to thrive.

The opportunity for experimentation and learning would be enhanced if communities pursuing different experiments in social engineering were not geographically segregated. Living and working in multiple environments would enable individuals to sample and evaluate different approaches to problems, possibly bringing unsuccessful plans to an early conclusion and empowering real solutions.

An encouraging example of individuals participating in two different systems is documented by the economist Gary Becker (2007) in a report about the state of the Israeli kibbutz system. Free flow of people between experimental communities would seem desirable, although certain commitments may be required, backed up with penalties for exit or participation in other communities.

Shearmur posits some sort of "wider liberal regime" over communities, which "must thus be seen as the bearer of specific, if fallible, judgements as to how the world works" (1996b, 154). If this regime is subject to competition and interacts with different communities through subscription and contract, it would be under market discipline. However, Shearmur seems to attribute government-like powers to it, rendering it fallible but unaccountable.

Regulation of communities and their interactions may be done proprietarily.<sup>17</sup> For example, in order to gain credibility and attract members, communities may need to join some accrediting association or make certain commitments concerning conflict resolution with other communities and their members.<sup>18</sup> To deny that there will be problems and outcomes that are distasteful to one or more community members is to

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17. For books that discuss the hypothetical implementation of market anarchism, see Tannehill and Tannehill 1984; Klassen 1997; and Murphy 2002.

18. Shearmur mentions the possibility "of institutions which call various communities to account" (1996b, 150). As long as this calling-into-account is done proprietarily, it would not be a problem. However, when speaking of children, many people seem quite willing to exercise violence to impose their preferred outcome.



believe people to be saints. However, we can expect that the diverse nature of the order will limit the damage, and failures will be rectified.

### *Criticism*

It is through the mechanism of profit and loss that we may criticize institutions,<sup>19</sup> including those comprising money, banking, insurance, and justice. The advantage of this approach over that of government is large in that market participants decide by their buying or refusing to buy whether the services being provided meet their needs. Every consumer is intimately involved in the decision process concerning each institution and is truly responsible for continuing to suffer with poor service. The continuation of unsatisfactory service is limited only by the terms agreed to rather than being at intervals imposed by government and at the discretion of bureaucrats or political processes.

As institutional entrepreneurs discover new ways of combining factors, and new offerings of products and services emerge, they are tested in the market. If they are successful in providing an improvement from the consumers' views, institutions will evolve or be replaced by the newer, more successful theories. This process proceeds peacefully with minimal upheaval and requires no voter education or drives to overcome apathy.

It is right for us to be concerned that such a system would function, and a brief detour from theoretical concerns may be helpful in the argument. There is a precedent in the case of perhaps the most important institution—the law. Bruno Leoni tells us that Rome had law that underwent a discovery process rather than being legislated:

The Roman jurist was a sort of scientist: the objects of his research were the solutions to cases that citizens submitted to him for study, just as industrialists might today submit to a physicist or to an engineer a technical problem concerning their plants or their production. Hence, private Roman law was something to be described or to be discovered, not something to be enacted—a world of things that were there, forming part of the common heritage of Roman citizens. Nobody enacted that law; nobody could change it by any exercise of his personal will. This did not mean absence of change, but it certainly meant that nobody went to bed at night making his plans on the basis of a present rule only to get up the next morning and find that the rule had been overturned by a legislative innovation. (1991, 83)

Before giving this example, Leoni develops his own ideas about law and an analogy between markets and discovered law that parallels the analogy between a planned economy and legislation (1991, 23). Shearmur documents Leoni's possible influence

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19. Here I am using the word *institution* in the sense of an enterprise that offers a service that is in almost universal demand.

on Hayek (1996a, 88–92), and it seems only natural that Hayek would be attracted to the spontaneous discovery process that Leoni describes. It also seems clear that this discovery process would appeal to Popper, at least in the context of evolutionary knowledge.

## Conclusion

Popper would have been better to answer the question “*How can we so organize political institutions that bad or incompetent rulers can be prevented from doing too much damage?*” (1963a, 127) by sweeping aside the assumption of the state and politics, as he had swept aside the assumption of induction. But it is somewhat harsh to criticize Popper for this failure because he had contemporaries who were better equipped to make this leap—Mises and Hayek, for example—but who did not.

A market free of any state interference would allow the greatest freedom of experimentation and be neither a friend nor a foe to any community, geographical or otherwise. It seems clear that such a society would produce the greatest number of proposals followed by the swiftest criticism, generating the greatest amount of knowledge and problem solving.

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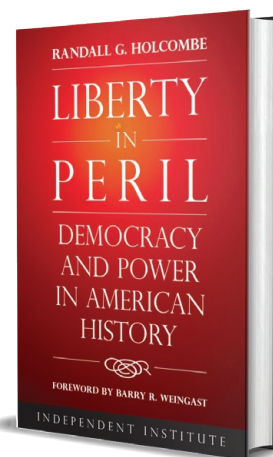
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